THE LEGISLATIVE ASSEMBLY OF
BRITISH COLUMBIA

SELECT STANDING COMMITTEE ON CROWN CORPORATIONS

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LEGISLATIVE ASSEMBLY
PROVINCE OF BRITISH COLUMBIA

November 5, 2003

To the Honourable,
The Legislative Assembly of the
Province of British Columbia
Victoria, British Columbia

Honourable Members:

I have the honour to present herewith the Second Report of the Select Standing Committee on Crown Corporations.

The second report covers the work of the Committee from May 7, 2003 to November 5, 2003

Respectfully submitted on behalf of the Committee.

Ken Stewart, MLA
Chair

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COMPOSITION OF THE COMMITTEE

MEMBERS

Ken Stewart, MLA	Chair	Maple Ridge-Pitt Meadows
Harry Bloy, MLA	Deputy Chair	Burquitlam
Pat Bell, MLA		Prince George North
Susan Brice, MLA		Saanich South
Daniel Jarvis, MLA		North Vancouver-Seymour
John Les, MLA		Chilliwack-Sumas
Harold Long, MLA		Powell River-Sunshine Coast
Joy MacPhail, MLA		Vancouver-Hastings
Barry Penner, MLA		Chilliwack-Kent
Rod Visser, MLA		North Island
Dr. John Wilson, MLA		Cariboo North
Patrick Wong, MLA		Vancouver-Kensington

CLERK TO THE COMMITTEE

Craig James, Clerk Assistant and Clerk of Committees

COMMITTEE RESEARCHER

Jonathan Fershau, Committee Researcher

Audrey Chan, Research Analyst (to July 2003)

TERMS OF REFERENCE

On April 9, 2003 the Select Standing Committee on Crown Corporations was appointed to review the annual reports and service plans of British Columbia Crown Corporations.

In addition to the powers previously conferred upon the Select Standing Committee on Crown Corporations, the Committee be empowered:

(a) to appoint of their number, one or more subcommittees and to refer to such subcommittees any of the matters referred to the Committee;

(b) to sit during a period in which the House is adjourned, during the recess after prorogation until the next following Session and during any sitting of the House;

(c) to adjourn from place to place as may be convenient; and

(d) to retain personnel as required to assist the Committee,

and shall report to the House on matters referred to the Committee during the Third Session of the Thirty-seventh Parliament and the current session and as soon as possible or following any adjournment, or at the next following Session, as the case may be; to deposit the original of its reports with the Clerk of the Legislative Assembly during a period of adjournment and upon resumption of the sittings of the House, the Chair shall present all reports to the Legislative Assembly.

COMMITTEE PROCESS

On April 9, 2003, the House instructed the Select Standing Committee on Crown Corporations to review the annual reports and service plans of B.C. Crown Corporations. In its oversight role, the main objectives of the Committee are to enhance the accountability and improve the public performance reporting of Crown Corporations.

During the fourth session of the 37th Parliament, the Committee held nine meetings, including a planning session on April 8 and an orientation seminar on April 30. For its second report, the Committee reviewed the service plans and annual reports of five Crown Corporations that have completed the core services review: the Insurance Corporation of British Columbia (May 7); the British Columbia Utilities Commission (May 28); BC Hydro (June 11); the Homeowner Protection Office (July 8), and the Organized Crime Agency of British Columbia (October 9). The Committee deliberated on its report on October 29 and November 5.

As part of the review process, senior officers from the selected Crowns appeared before the Committee to present the corporation's latest annual report and service plan. To assess each Crown, committee members considered the 11 key reporting principles contained in the Committee's *Guide to Operations* (see Appendix A). Committee members also had the opportunity to discuss with these senior officers issues of concern or interest arising from the corporation's presentation to the Committee.

Since being reactivated in June 2002, the Committee has reviewed ten Crown Corporations. Those scheduled for upcoming reviews are the British Columbia Housing Management Commission and the Oil and Gas Commission.

Minutes and transcripts of committee proceedings, as well as previous committee reports, are available at http://www.leg.bc.ca/cmt. The Committee would like to acknowledge the cooperation of the senior officers who appeared before the Committee and look forward to the opportunity to meet with them again for future reviews.

REVIEW OF INSURANCE CORPORATION OF BRITISH COLUMBIA

On May 7, 2003, the Crown Corporations Committee met with the senior officers of the Insurance Corporation of British Columbia (ICBC), and reviewed the following documents:

- Insurance Corporation of British Columbia *Annual Report 2002*
- Insurance Corporation of British Columbia *Service Plan 2003-2005*

Committee Observations

In reviewing the Insurance Corporation of British Columbia, the Committee considered the 11 key reporting principles outlined in its *Guide to Operations* (see Appendix A). During their internal deliberations, committee members made the following observations:

1, 4. The Committee was satisfied that ICBC has done a good job of explaining the organization's mandate, core products and services, operating environment and major challenges in its service plan. The Committee also found that the plan is very detailed in specifying the intended level of performance for the planning period and in providing measures. One weakness noted by Members is that there is no provision in the service plan "to cooperate with competitive companies" as to fulfill one of the objectives proposed by government.

2. The Committee was only partially satisfied with how the achievement of ICBC's goals and objectives is explained in the Corporation's service plan. In particular, Members felt that a conflict exists between the Corporation's strategic goal to "focus on the bottom line" (as indicated on page 19 of the service plan) and the goal to be "customer-focused" (as indicated on page 21 of the plan). They were concerned that bottom-line objectives could lead to poor business practices that would not improve customer satisfaction. Members also questioned whether ICBC would be able to attain its stated objectives.

3. Overall, the Committee found that the goals and objectives are well defined in the service plan and consistent with and supportive of the Corporation's mandate, even though they may not be attainable.

5. The Committee was satisfied that the intended results identified in the service plan are clear, measurable, concrete and consistent with the organization's goals or objectives.

6. The Committee was only partially satisfied that the intended results represent a reasonable/appropriate level of achievement given historical performance, resources available to the organization, and performance of similar organizations. With respect to historical performance, Members felt that the service plan could make the contrast between past and current policies more clear. With respect to peer performance, some Members expressed concern that ICBC currently uses Government of Canada statistics for comparison, but does not reveal its own actual statistics to other agencies.

7-8. The Committee was satisfied that the ICBC service plan sufficiently demonstrates how resources and strategies will influence results, and that financial and non-financial performance

measures are provided to give an integrated and balanced picture of intended performance. One area of concern noted by Members is that ICBC uses its tax advantage to show better results and thus is not really competitive with other companies.

9-10. Committee members were satisfied that the planned contribution of key activities to intended results or goals/objectives is adequately demonstrated in the service plan. Members also agreed that in general, there is a clear comparison between actual performance, as provided in the annual report, and intended performance as set out in the service plan.

11. The Committee was satisfied that the relevant core principles enunciated by Government policies are evident in the planning and operations of ICBC. Specifically, Members were pleased to see that the service plan is presented on a commercial basis and represents the direction of Government. One weakness noted by Members is that the service plan does not address how greater competition will be attained.

ISSUES FOR FUTURE REVIEW

Arising from its initial review, the Committee identified the following issues for ongoing monitoring and future review.

- **Governance structure of ICBC**

  Members expressed concern about the present governance structure of the Insurance Corporation of British Columbia. Following the departure of ICBC's Chief Executive Officer (CEO) in August 2002, one individual has held the influential positions of CEO, President and Chair of the ICBC Board. Some committee members perceived this situation to be in contravention of the principles of good governance, as outlined on page 8 of the service plan. Others Members thought that this combination of senior positions has resulted in accountabilities and responsibilities that are inappropriate for both the long-term and day-to-day management of the Corporation. Members were also frustrated about the delay in searching for a new CEO.

  Furthermore, the Committee was not satisfied with the responses of the CEO concerning certain aspects of ICBC's service plan and annual report. In particular, some Members felt that the witness evaded questions concerning the comparability of ICBC's statistics to other jurisdictions, whether independent auditors were being used to evaluate the Insurance Corporation of British Columbia's goals and objectives, and the request for a regional breakdown of road safety expenditures.

- **ICBC tax exemption**

  The Committee expressed concern that notwithstanding one of the Corporation's stated strategic goals, ICBC is not really competitive with other companies. As a Crown corporation, ICBC is subject to tax exemptions – for example, from provincial corporate income taxes – that are not available to private companies. Committee members felt that this "tax advantage" has been used to show better results in the ICBC service plan, which does not truly reflect how resources and strategies will influence intended results.

  The Chair of ICBC responded that in spite of the tax exemption, ICBC pays approximately $90 million worth of costs that private insurance companies do not bear.

These costs relate to non-insurance services provided by ICBC on behalf of the government – for example, in terms of driver licensing and fines collection, vehicle registration and licensing, and commercial vehicle compliance functions.

In relation to ICBC's tax exemption, some Members also asked the witnesses what the expected time frame would be for ICBC to build up a solid reserve, or retained earnings, to be in line with other insurance companies. The witness responded that the buildup of retained earnings would probably occur over a three- to four-year period, or longer, because the only sources of that buildup are premiums. He stated that it would not be beneficial to rapidly escalate premiums for the purpose of building up reserves.

- **Management of financial reserves**

  Referring to ICBC's intentions to move forward in allowing greater competition in its optional insurance product lines and to put ICBC on an equal footing with private insurers, Members asked if ICBC maintains two separate financial reserves – one for basic insurance and one for optional insurance. They observed that a statement on page 20 of the ICBC service plan – "Private companies are required to maintain larger financial reserves than ICBC" – seems to imply that maintaining the larger financial reserves are a cost of doing business. Given this premise, the Members noted that in order for ICBC to be on an equal footing with private insurers in the optional insurance market, ICBC would either have to maintain two separate financial reserves, or identify what the required levels of reserves are for private insurers and maintain the reserves for its optional insurance products at the same level.

  In response, the witness informed the Committee that up until about two years ago, ICBC has been run as an integrated company with one set of capital assets and one set of reserves. He noted, however, that the Corporation's balance sheet provides actuarial reserves for losses for every loss and every claim. Over the past two months, ICBC has engaged its external auditor, PricewaterhouseCoopers, to analyze the Corporation's profit and loss statements in order to differentiate all of its costs and all of its revenue lines. This is done to fulfill ICBC's commitment not to cross-subsidize but to operate on a level playing field with private insurers. The Chair of ICBC reported that the rate changes in 2002 and 2003 reflect the new direction that the Corporation is moving toward.

- **Impact of advanced technology on crash costs**

  Some Members asked what the future trends might be in terms of costs of crashes, given advances in automobile technology such as the use of the hybrid electric and internal combustion engine. The Chair of ICBC observed that in the past year or two, there has been a stabilization or even reduction in the number of crashes in terms of property damage, although the severities of crashes have increased. He also observed that it is "costing more to fix a car" – in the sense that more damage is being done to cars and that cars are more expensive to fix. One strategy being considered by ICBC is to provide information on its website to assist its customers, before they buy a car, in better understanding the different insurance rates that could apply to different cars based on repair costs. The Chief Operating Officer of ICBC also added that the Corporation is continually engaged in material damage research on the repairability of cars, as well as in training with the autobody repair industry and its own estimators.

- **Sharing of summary data**
  Some Members asked whether moving toward greater competition would mean that ICBC is prepared to share the data it has collected over the past 30 years with other insurance companies, as private insurers are generally required to do. The Chair of ICBC responded that in other provinces, summary data is provided to all insurance companies on a number of risk factors on certain issues. He informed the Committee that ICBC is currently engaged in discussion on the topic and intends to make that summary data available, through a regulatory body, to all insurance companies in a manner very similar to that provided in other provinces.

- **Regional road safety concerns**
  Some Members observed that local wildlife conditions have resulted in especially high premium rates in the Cariboo region, and asked if ICBC has specific regional strategies in place to address those road safety concerns. The witnesses informed the Committee that ICBC is involved in various wildlife-related road safety projects – notably the development and testing of the Wildlife Protection System, which uses infrared cameras to detect animals near or on the highway and trigger flashing warning lights for motorists to slow down. Organizationally, ICBC is also making efforts to develop a closer working relationship between its road safety department and its partners in local communities.

  Another concern of the Committee was that current ICBC policy regarding windshield replacements dose not recognize the unique road conditions in northern BC. Members asked if the Corporation is engaged in any road maintenance strategies to help reduce windshield fractures for those drivers. With respect to the ICBC policy, the witnesses explained that in order to remain a financially viable insurance company, ICBC must establish deductibles on a risk basis – that is, deductibles will escalate if there is a significant number of claims over a three-year period. In terms of road maintenance strategies, the witness informed the Committee that ICBC is working on strategies to minimize the use of road aggregate, while improving road safety – for example, through the use of proactive de-icing liquid technology.

- **Central City capital project**
  With respect to ICBC's Central City capital project related to the Surrey Place Shopping Mall, Members asked how the $41.1-million settlement received from the provincial government is accounted for in ICBC's financial statements. They learned that the loss of ICBC as a customer in the Surrey Place Mall was taken into account through a $100 million write-down. With respect to the cancellation of Tech BC's lease, ICBC took a further write-down of $41.1 million, but at the same time, received a payment of $41.1 million from the provincial government through ICBC Properties Ltd. so that the net effect on ICBC's bottom line was zero.

  The Committee also asked the witnesses if the shopping center complex, including the tower, is now a net contributor to ICBC's bottom line, or whether it is still largely vacant and therefore not generating revenue. The witness responded that on a reasonable-return-on-capital-invested basis, the shopping mall is not yet a contributor. However, ICBC, as owner of the Surrey Place Mall, has taken a write-down in that the Corporation has made an eight- to nine-year forecast of the lease-up, and is ahead of the lease-up plans. The

witness informed the Committee that on all of the eight to nine years, the shopping mall is a net contributor to ICBC on an internal-rate-of-return basis. The Committee also learned that ICBC currently has two or three major negotiations underway for leasing mall space.

- **Performance indicator – customer satisfaction**
  Some Members brought forward concerns they have heard from suppliers about how ICBC runs its express repair program and its glass express program – namely, that there is an apparent lack of open bidding and a lack of clarity regarding the requirements for qualification. Members asked if there are any plans for creating a "supplier ombudsman" office to handle complaints from suppliers. In response, the witness acknowledged that the concept had been discussed in the past, but ICBC has made no commitment to do so.

- **Other issues**
  The Committee also canvassed the witnesses on the following issues: the estimated savings to ICBC in claims costs due to increased deductibles; and ICBC's current policy regarding the use of original equipment manufactured (OEM) parts for repair of new vehicles.

Committee Recommendations

Recommendation No. 1:
The Committee recommends that the Insurance Corporation of British Columbia implement the Committee's observations and suggestions for improvements in the Corporation's future annual reports and service plans – in particular with respect to key reporting principles #1, 2, 6, 7 and 11 as outlined under the "Committee's Observations" section.

Recommendation No. 2:
The Committee recommends that the Insurance Corporation of British Columbia immediately conduct an executive search to fill the position of Chief Executive Officer.

Recommendation No. 3:
The Committee recommends that the Insurance Corporation of British Columbia
a) Detail the value of all tax exemptions afforded to ICBC as a result of its Crown Corporation status,
b) Provide detailed information pertaining to the costs of services delivered by ICBC that private insurance companies do not bear,
c) Specify within its service plan how ICBC, given this inherent benefit/cost scenario, is promoting competition within the insurance marketplace.

Recommendation No. 4:
The Committee recommends that the Insurance Corporation of British Columbia make available publicly the actuarial statistics of the Corporation and summary data collected by the Corporation.

Recommendation No. 5:

The Committee recommends that the Insurance Corporation of British Columbia continue to improve its audit procedures regarding complaints of repair shop programs, and ensure that such audit procedures are made available to repair shop operators. The Committee requests ICBC to report back to the Committee within three months of the release of this report, the status of improvements made to these audit procedures.

REVIEW OF BRITISH COLUMBIA UTILITIES COMMISSION

On May 28, 2003, the Crown Corporations Committee met with the senior officers of the British Columbia Utilities Commission (BCUC), and reviewed the following documents:

- British Columbia Utilities Commission *Annual Report 2001*
- British Columbia Utilities Commission *Service Plan for the period 2003/2004 through 2005/2006*
- British Columbia Utilities Commission *Regulatory Agenda, April – June 2003*

Committee Observations

In reviewing the British Columbia Utilities Commission, the Committee considered the 11 key reporting principles outlined in its *Guide to Operations* (see Appendix A). During their internal deliberations, committee members made the following observations:

1. The Committee was satisfied that the Commission's service plan adequately explains the organization's mandate, core products and services, operating environment and major challenges. In particular, Members felt that the objectives are clear, and that the service plan is very well laid out overall.

2. The Committee was satisfied that the Commission's service plan is "very analytical" and focuses on aspects of performance that are critical to the organization achieving its goals, objectives and intended results.

3, 9. The Committee found that the Commission's goals and objectives are well defined and consistent with and supportive of the achievement of its mandate. Members also agreed that the planned contribution of key activities to intended results or goals/objectives are adequately demonstrated.

4. Overall, the Committee was satisfied that the intended level of performance for the planning period is specified. Members recognized that the expanded regulatory role of the Commission with respect to ICBC will have to be reviewed retroactively.

5. The Committee was only partially satisfied that the intended results identified in the service plan are clear, measurable, concrete and consistent with the organization's goals or objectives. Members expressed concerns that many measures and targets are subjective and not measurable.

6. Committee members found that the Commission's service plan has satisfactorily demonstrated that the intended results represent a reasonable/appropriate level of achievement given historical performance, resources available to the organization, and performance of similar organizations.

7. Overall, the Committee was satisfied that the Commission's service plan sufficiently demonstrates how resources and strategies will influence results.

8. The Committee was satisfied that financial performance measures are provided to give an integrated and balanced picture of intended performance, but was only partially satisfied with the non-financial performance measures.

10. Committee members agreed that, to the extent possible, there is clear comparison between actual performance as provided in the annual report and intended performance as set out in the service plan.

11. The Committee was satisfied that the relevant core principles enunciated by Government policies are evident in the planning and operations of the BC Utilities Commission – in particular with respect to the government's vision for competition. Members noted that the Commission is shifting its plans to meet those objectives.

ISSUES FOR FUTURE REVIEW

Arising from its initial review, the Committee identified the following issues for ongoing monitoring and future review.

- **Subjectivity of performance measures**

  Committee members expressed concerns that many of the performance measures or targets included in the BCUC service plan are "fairly subjective" and not measurable. For example, they pointed out that one of the performance measures for the Commission's fifth strategic goal (p. 20 of service plan) – "tariffs that provide the same services to different customers at a cost that is fair and non-discriminatory under the circumstances" – was not quantifiable. The Committee felt that the use of the word "fair" might produce confusion in the assessment process. Members asked if this was part of the nature of the business of BCUC, and if the Commission has any strategies to improve the measurability of its performance targets.

  In response, the witnesses agreed with committee members that as a reactive regulator, developing objective, quantifiable performance measures has remained a continual challenge for the Commission. The Commission Chair reported that his staff continues to dialogue with the Crown Agencies Secretariat and his counterparts for ideas on how to objectify performance measures, although he noted that BC is seen as a leader in the area of performance measurement.

  The Commission official also added that the challenge faced by the Commission is due to both the technical-analytical part of the regulatory business and the quasi-judicial role of the Commission. He explained that depending on whether people are a consumer or utility company, which customer class they belong to, and other factors, they will often disagree with what a "fair" rate is. Setting an objective benchmark for the service plan is made more difficult by the fact that the Commission is a quasi-judicial tribunal. As such, it is not advisable for the Commission to provide, in advance, the definition of a fair rate – because an applicant might, on that basis, challenge a Commission decision as being "prejudged." Finally, the witnesses added that, in terms of achieving fair, safe reliable service at low cost for customers, the Commission cannot achieve those targets directly, but must do so through the utilities it regulates.

- **Comparative data**
  Some committee members noted that to date, BCUC has measured its own performance mainly against the National Energy Board. They asked if the Commission has considered using other provincial jurisdictions or comparatively-sized American states for benchmarking purposes. The witness responded that at present, the National Energy Board and the BC Utilities Commission are the only Canadian agencies that collect performance measurement information. He stated, however, that he intends to propose to the new executive director of the Canadian Association of Members of the Public Utility Tribunals (CAMPUT) to encourage all Canadian utility regulators to develop and collect such information for comparative purposes.

- **Performance indicator – cost of regulation per customer**
  Referring to one of the BCUC's performance indicator, cost of regulation per customer, some committee members asked how the Commission intends to account for the indicator once it begins to regulate ICBC – which means the addition of approximately another two million customers – in 2004. The Commission Chair responded that the cost of regulation per customer is currently calculated by dividing the Commission's total expenditures for a year by the total number of customers served by utilities regulated by the Commission. In 2002, the cost of regulation per customer is 91 cents. With the additional mandate to regulate ICBC, the Commission Chair stated that the indicator would no longer be relevant and that the Commission would have to come up with some better indicator for the cost of regulation of energy utilities and of ICBC.

- **Use of consumer price index**
  Some Members questioned whether the use of the consumer price index (CPI) is really a good and true way of determining gas and electricity prices. In response, the witnesses explained that the CPI is often only one component of a formula for determining gas and electricity prices, which is based on the CPI minus a "productivity factor" that is developed through a negotiated settlement process. The witnesses also indicated that although the use of CPI might be problematic, it is the best index currently available, as it is a commonly known and easily accessible tool.

- **Future regulation of privately-owned water utilities**
  Some committee members were interested in how privately-owned water utilities are regulated. In response, the witness informed the Committee that the Office of the Comptroller of Water Rights within Land and Water BC sets the rates for any water system that is not owned and operated by a local government. He noted however, that the during the Core Services Review process, this regulatory function was identified as one that would not be funded for Water and Land BC as of the fiscal year beginning April 2004. It is the witness's understanding that Land and Water BC intends to propose to the government caucus this summer that the rate regulation function for privately-owned water utilities be transferred to the BC Utilities Commission. The larger issue, the witness noted, is to ensure that the integrity of water quality is not adversely affected by any such transfer.

- **Funding for third-party intervenors**

  The Committee learned that extensive hearings are planned over the upcoming months to help determine the functioning of the new transmission entity and how independent power producers will be able to access transmission. Some Members inquired about the type of funding that the Commission might make available to third-party interveners to enable them to participate in this hearing process. The witness responded that the Commission has guidelines for "participative assistance." In cases where a hearing process warrants some sort of participant funding, the Commission will publicize its guidelines and invite interveners to apply by a certain date. To ensure that proceedings are run efficiently, the Commission encourages intervenors with similar interests to participate jointly. Eligible intervenors will receive a letter from Commission staff that includes an estimate of the amount of funding that will likely be awarded. The Commission Chair noted that the current upper limit for funding is $1,200 a day for consultants and lawyers, with two days' preparation for every one day of hearing. Interveners are awarded costs after the fact, with the costs most often paid for by the utilities applicant.

  Specifically with respect to the Heritage Contract inquiry, the witness informed the Committee that there is "no real applicant." BCUC has budgeted $250,000 this year for commission-sponsored participant assistance, and the Commission panel to conduct the hearing process is expected to be able to award all of that $250,000 to participants at the Heritage Contract inquiry.

  As a follow-up, some committee members brought forward concerns they have heard – namely, that it is difficult for a potential intervener to make plans to participate in a hearing process when they cannot be certain of compensation amounts until after the hearing process. In reply, the Commission Chair explained that the letters-in-reply from Commission staff during the preliminary stages are intended to provide interveners with an estimate of the compensation that can be expected. He also noted that these compensation amounts are designed to be "assistance" funding rather than full participant funding – in the sense that interveners are expected to have other additional source of funds. The Commission and most participants in BC favour this approach, as it ensures that funding is available to those who genuinely require it. This prevents against situations that lead to lengthy hearing processes and abuse of the negotiated settlement processes because there is no money in it for interveners.

- **Rate of return on equity**

  The Committee learned that since the mid-1990s, the Commission has adopted a formula-based mechanism for determining rate of return on equity. This formula is based on long-term Canada bond rates plus a risk premium – 3.5 percent for B.C. Gas, or higher for a riskier utility. The witness informed the Committee that BC Hydro's dividend to the province is calculated on BC Gas's pre-tax rate of return on equity, and is currently set at around 15 percent. Some committee members felt that such a return rate would appear a bit high, under current economic circumstances.

- **Other issues**

  The Committee also canvassed the witnesses on the following issues: the Heritage Contract and BC Hydro's stepped rates; the Duke Point power project; the impartiality of

Commission appointments and staff; the alignment of the interests of utility ratepayers and shareholders.

Committee Recommendations

Recommendation No. 6:
The Committee recommends that the BC Utilities Commission implement the Committee's observations and suggestions for improvements in the Commission's future annual reports and service plans – in particular with respect to key reporting principles #5 and 8 as outlined under the "Committee's Observations" section.

Recommendation No. 7:
The Committee recommends that the BC Utilities Commission review its performance measures in order to make them objective and measurable.

REVIEW OF BRITISH COLUMBIA HYDRO AND POWER AUTHORITY

On June 11, 2003, the Crown Corporations Committee met with the senior officers of BC Hydro, and reviewed the following documents:

- BC Hydro *Annual Report 2002*
- BC Hydro *Service Plan 2003/2004 to 2005/2006*

Committee Observations

In reviewing BC Hydro, the Committee considered the 11 key reporting principles outlined in its *Guide to Operations* (see Appendix A). During their internal deliberations, committee members made the following observations:

1. The Committee was satisfied that BC Hydro has provided a sufficient explanation of the organization's mandate, core products and services, operating environment and major challenges in its service plan. Members expressed reservations about BC Hydro's contingency plans for fluctuations in the price of natural gas and/or lower-than-average water levels.

2. The Committee was largely satisfied that BC Hydro's service plan focused on aspects of performance that are critical to the organization achieving its goals, objectives and intended results, if anticipated market conditions prevail.

3. For the most part, Committee found that the goals and objectives are well defined in the service plan and consistent with and supportive of BC Hydro's mandate.

4. The Committee found that the intended level of performance for the planning period is adequately specified. Some Members commented that given favourable market conditions, a better than anticipated level of performance may be achieved.

5. The Committee was reasonably satisfied that that BC Hydro's intended results are clear, measurable, concrete and consistent with stated goals and objectives.

6. Committee members were only partially satisfied that the intended results represent a reasonable/appropriate level of achievement given historical performance, resources available to the organization, and performance of similar organizations. Committee members felt that BC Hydro was being 'conservative' in its forecasts.

7-8. The Committee was satisfied that BC Hydro's service plan sufficiently demonstrates how resources and strategies will influence results, and that financial and non-financial performance measures are provided to give an integrated and balanced picture of intended performance. One weakness identified committee members is that BC Hydro must further elaborate on how it intends to develop and promote resources to reach desired results.

9. Committee members were only partially satisfied that BC Hydro's service plan demonstrates the planned contribution of key activities to intended results or goals/objectives. Members expressed concerns that BC Hydro's service plan does not adequately address the issue of deteriorating power-generating assets.

10. The Committee was only partially satisfied that BC Hydro's actual performance (in the annual report) and intended performance (in the service plan) set out a clear structure for comparison.

11. Committee members were satisfied that the core principles enunciated by Government policies were evident in the planning and operations of BC Hydro.

Issues for future review

Arising from its initial deliberations, the Committee identified the following issues for ongoing monitoring and future review.

- **Ownership of BC Hydro core assets**
  Members asked the witnesses to clarify BC Hydro's commitment that "the core generation, transmission, and distribution assets of B.C. Hydro will remain under public ownership," as outlined on page 3 of the Shareholder's Letter of Expectations Between the Minister of Energy and Mines and the British Columbia Hydro and Power Authority. The Chair and CEO of BC Hydro responded definitively: "These assets are not for sale."

- **Role of independent power producers in future power generation**
  Members raised questions concerning the BC Hydro's relationships with independent power producers (IPPs), IPPs access to the transmission grid, as well IPPs abilities to market their particular type of energy.

  The witnesses replied that BC Hydro was in the process of 'being a little more aggressive' in seeking out green and 'no fuel risk' IPPs as a means to provide a cushion against market forces.

  As for access to the transmission grid, the witnesses answered that any IPP that is serving a domestic load has equal access onto the transmission grid. With respect to marketing power, the witnesses responded that IPPs may market their own power, but indicated that some rule changes are required by the British Columbia Transmission Corporation are needed in order to enhance marketing projects.

- **Least cost supply measurement**
  Members expressed concerns over how BC Hydro calculated the value of the least cost supply measurement (LCSM) for new power generating facilities. As a benchmark, BC Hydro anticipates the lowest cost alternative for new power production to be between $55 and $70 per MWh. Members inquired whether the anticipated increase in natural gas prices in the long-term would raise the value of the LCSM. Furthermore, Members asked whether an increase in the LCSM would necessitate a re-evaluation of the $55 MWh purchasing cap BC Hydro has placed on IPP project development, particularly within the Vancouver Island context.

  The witnesses responded that the value of the LCSM was based on studies conducted by independent consultants that appraised the long-run cost of natural gas. The witness stated that other options, such as a proposal to develop alternative power sources such as the Site C dam, would also be considered in order to minimize exposure to fuel-cost risks.

With respect to the purchasing cap placed on IPPs, the witnesses replied that the cap was imposed in order to limit proposals for projects considered by BC Hydro to be economically unviable. The Chair of BC Hydro added, however, that the cap is a temporary measure and that BC Hydro intends to let the market compete in the future. He noted that current IPP proposals are being submitted at an average cost of $53 MWh.

- **Vancouver Island power generation - current situation and future projects**
  Several Members raised questions concerning BC Hydro's plans for power generation on Vancouver Island. With respect to current infrastructure, the Committee heard that the existing 240-megawatt, High Voltage DC Cable connecting Vancouver Island to the mainland was nearing the end of its useful life and could not adequately be repaired. Accordingly, BC Hydro is seeking out alternative sources of power on Vancouver Island before 2007.

  The witnesses stated that at present, Vancouver Island does not have sufficient natural gas supplies to meet peak period electricity production. To alleviate this situation, BC Hydro has proposed a combination natural gas pipeline connecting the mainland with Vancouver Island (GSX project) as well as the construction of a 265 megawatt natural gas fired electricity generation plant at Duke Point in Nanaimo.

  Norske Canada has proposed that the development of a series of cogeneration power facilities as a means of addressing the looming power shortage on Vancouver Island. As one of Vancouver Island's largest consumers of power, cogeneration projects (producing electricity using a combination of biomass and natural gas) would ensure Norske a stable, long-term power supply in addition to increasing power generation capacity on Vancouver Island. However, some committee members expressed reservations over the long-term viability of such co-generation plants operated by pulp and paper companies, given the instability in the world market for paper products.

  With respect to 'green' electricity production, the witnesses replied that seven projects on Vancouver Island are presently on a short list for construction. However, the 28 to 60 megawatts of power produced by these proposed facilities was below the minimum power generating capacity of 240 megawatts required for Vancouver Island.

  In the interim, BC Hydro is providing premium-pricing incentives to independent power producers in order to induce supply on Vancouver Island. These incentives include a $5 per MWh Green Energy adjustment that is applied in ranking bids where projects produce energy from designated green sources, as well as an additional $3.20 per MWh 'adder' to the ceiling price BC Hydro is willing to pay vis-à-vis comparable power production in the Lower Mainland. Additional incentives are also available for plants that produce low quantities of greenhouse gas emissions. In the interim, BC Hydro is planning to bolster its Power Smart program in order to encourage energy conservation.

- **Accenture Business Services of British Columbia and BC Hydro**
  Some Members inquired about the relationship between BC Hydro and Accenture Business Services, the company responsible for customer billing and information technology services. The Committee was updated on the status of Accenture's acquisition of additional contracts to supply additional back-office support or billing services, as a

means to generate savings to BC Hydro. The witnesses responded that Accenture was close to acquiring several contracts with utilities in both Canada and the United States. As a result, Accenture was looking to expand their workforce in this business line.

Members also requested information on the makeup of Accenture Business Services Board of Directors. The witnesses responded that the board is comprised of three members from BC Hydro and four individuals from Accenture. The witness also indicated that an independent advisory board would soon be established.

Members also expressed concern over Accenture's obligations with respect to the maintenance of a high level of customer satisfaction established under BC Hydro. The witnesses replied in written correspondence that financial penalties may be levied against Accenture should it not maintain a high level of customer satisfaction. At present, the Service Level Agreement with Accenture Business Services stipulates that a financial penalty will be charged if the 'critical' service level metric for BC Hydro customers calling the customer call center falls below 84% in customer satisfaction.

In further correspondence, the witnesses further clarified that Accenture Business Services and BC Hydro will jointly conduct cost and service benchmarks against North American comparables commencing in year three of the contract. Anticipated results from this benchmarking exercise are first quartile placing in terms of price and performance measures.

- **Workforce demographics**

  Several committee members raised questions concerning the demographics of BC Hydro's workforce. They heard that while operational units such as Powerex and Accenture Business Services are skewed towards early or mid-career employees, units such as Distribution, Engineering, and Field Services are heavily skewed towards retirement-eligible employees. Committee members asked the witnesses for an outline of the strategies that BC Hydro has in place to meet its future demands for skilled workers.

  With respect to workforce training and recruitment, the witnesses replied that there has been increased support from the college system. For example, students are taking advantage of 'pre-apprenticeship courses' offered by Kwantlen College before applying for trades positions with BC Hydro.

  In terms of the current workforce, the witnesses indicated that although the high proportion of retirement-eligible employees is a concern, it is anticipated that only 25-30 percent of those eligible for early retirement will actually retire in any given year. Any shortfalls in labour would be made up through the hiring of contractors. The witnesses also indicated the high number of projected retirements may be used as an opportunity to "amend the cost structure and also look for people with new and fresh skills."

- **Sustainability of pension costs**

  Members raised questions about pension costs and their sustainability, noting in particular a significant 250 percent increase in pension costs from $28 million in 2002 to $72 million in 2003. In response, the witnesses stated that BC Hydro was allocating an additional $50 to $55 million per year to cover additional costs associated with the

pension fund as a consequence of a declining value of assets, additional costs associated with early retirement, and longer life expectancy.

In follow-up correspondence, BC Hydro provided clarification on the increase in pension costs. The $72 million figure includes not only pension costs, but also post-retirement, non-pension costs including medical, dental and life insurance provided to retirees. In fiscal 2003, the costs associated with these benefits were $39 million in pension plan costs and $32 million in non-pension plan costs. In fiscal 2002, these costs were $7 million and $21 million respectively.

A variety of explanations were given by BC Hydro for the escalation in these costs, including: MSP premium increases; the pension side cost increases due to collective agreement changes to make 'Gainsharing' pensionable; the impact of a 24-month employee contribution holiday (1999-2001); changes in actuarial assumptions, and amortization of short-term pension fund investment. These cost changes follow Generally Accepted Accounting Principles, which require estimated pension and post-retirement benefit costs. BC Hydro remains confident that there continues to be adequate protection in its actuarial calculations

In addition, BC Hydro indicated that the pension fund exceeded a 7 percent rate of return for a 20-year period ending in early 2000. Since 2000, BC Hydro has borne the short-term pension cost risk due to a severe drop in capital markets. BC Hydro anticipates pension fund investment returns in the mid to high single-digit range as a reasonable long-term expectation. BC Hydro is currently undertaking a pension plan asset/liability study to measure risks of economic events that could affect this investment strategy.

- **Performance benchmarks**

  Committee members asked for an elaboration on how BC Hydro establishes its performance targets. The witnesses stated that BC Hydro evaluates its performance by comparing itself to major utilities in other jurisdictions as well by using internally established benchmarks throughout the organization. BC Hydro indicated in follow-up correspondence that its operations fall within the second quartile of residential customer satisfaction, based on a National Customer Satisfaction Benchmarking survey.

  BC Hydro also uses internal benchmarks for maintenance and operational standards that involve a composite customer satisfaction score based on BC Hydro's specific customer segments. As such, this particular customer satisfaction survey does not produce statistics that would permit easy comparisons with other utilities.

  The composite score is derived from random surveys of BC Hydro's residential and business customers, measuring both overall and 'transactional' performance satisfaction with BC Hydro and as well as surveys that measure satisfaction with BC Hydro's Key Account Management and Call Centre transactions. BC Hydro's benchmark composite customer satisfaction score was 85 percent, with a March 2003 score of 93 percent. Customer satisfaction surveys are conducted on a semi-annual basis.

- **Business-sustaining capital plan**
  Several Members raised concerns about BC Hydro's strategy for operational maintenance of existing facilities. Members expressed disappointment that BC Hydro had not specifically linked preventive and operational maintenance strategies to the service plan produced.

  In a written response to the Committee's concerns, BC Hydro provided additional material on BC Hydro's investment strategies within each of its generation, distribution, and transmission business lines. With respect to generation, BC Hydro expects to invest 1 percent of replacement costs, or approximately $180 million per year (for ten years) in order to restore its generation assets to deliver the same or better level of performance. This $180 million represents a tripling of the annual sustaining capital investment when compared to the average over the last five years. In addition, both a 20-year asset plan for each generation facility and a consolidated generation asset plan have been developed.

  In terms of maintenance of distribution, BC Hydro indicates that assets are constantly being monitored and evaluated to ensure public safety and security of supply. As a result of the distribution facilities reaching the end of life at an increasing rate, BC Hydro has increased the distribution capital replacement ratio (the ratio of replacement investment compared to the asset value) from 1.10 percent last year to 1.44 percent for this fiscal year. This amount is anticipated to increase to 1.62 percent by fiscal year 2006.

  With regards to transmission facilities, the transmission functions have been re-allocated to the newly formed British Columbia Transmission Corporation (BCTC). BC Hydro notes that the transmission system is aging and that future investments will be driven by performance deterioration, end of life replacements and risk reduction programs. Accordingly, BC Hydro increased its target replacement capital ration from one percent to 1.27 percent of the replacement value of the transmission assets. This percentage will be revisited following the conclusion of BCTC's evaluation of the condition of the transmission grid.

- **Proposed rate increases**
  Some Members requested information concerning BC Hydro's proposal for electricity rate increases. The witnesses responded that BC Hydro, as indicated in its February 2003 service plan, is anticipating that the annual increase as of April 2004 will be between 3 and 6.5 percent. Some Members indicated that they wanted assurances that the proposed rate increases were based on need rather than on an increase in the consumer price index.

- **Federal Energy Regulatory Commission hearings**
  Members expressed concerns over Powerex's historical electricity trading practices in California, and Powerex's exposure to a legal finding of illegal trading by the Federal Energy Regulatory Commission (FERC). The witnesses replied that BC Hydro had not entered into long-term contracts in California, and that all but $260 million (U.S.) had been collected. The witnesses also stated that Powerex is complying with requests for documentation of trades by the FERC. However, the witnesses expressed concerns that the justification for investigating Powerex's trades was politically rather than legally motivated. Accordingly, the witnesses were 'cautiously optimistic' that favourable procedural hearings would occur.

Committee Recommendations

Recommendation No. 8:
The Committee recommends that BC Hydro implement the Committee's observations and suggestions for improvements in the Authority's future annual reports and service plans – in particular with respect to key reporting principles #1, 2, 6,7 and 9 as outlined under the "Committee's Observations" section.

Recommendation No. 9:
The Committee recommends that BC Hydro re-evaluate its contingency plan for fluctuations in the price of natural gas and/or lower-than-average water levels as to better reflect the potential of operating environment challenges.

Recommendation No. 10:
The Committee recommends that BC Hydro provide a clear strategy for upgrading and improving existing infrastructure as to ensure that BC Hydro achieves its goals, objectives and intended results through the allocation of current resources.

Recommendation No. 11:
The Committee recommends that BC Hydro reassess its intended results as to better reflect the Authority's historical performance and comparative performance to similar organizations.

Recommendation No. 12:
The Committee recommends that BC Hydro clarify its selection criteria used to select independent power production projects.

Recommendation No. 13:
The Committee recommends that as per its mandate, BC Hydro be required to increase opportunities for independent power producers in the province.

REVIEW OF THE HOMEOWNER PROTECTION OFFICE

On July 8, 2003, the Crown Corporations Committee met with the senior officers of the Homeowner Protection Office, and reviewed the following documents:

- Homeowner Protection Office *Annual Report 2002/2003*
- Homeowner Protection Office *Service Plan 2003 - 2006*

Committee Observations

In reviewing the Homeowner Protection Office, the Committee considered the 11 key reporting principles outlined in its *Guide to Operations* (see Appendix A). During their internal deliberations, committee members made the following observations:

1. The Committee was satisfied that the Homeowner Protection Office (HPO) has provided a clear explanation of its mandate, core products and services, operating environment and major challenges in its service plan.

2. The Committee was only partly satisfied that the HPO's service plan focuses on aspects of performance that are critical to the organization achieving its goals, objectives and intended results. Members expressed concerns that the Office's focus on solving the leaky condominium problem is diverting resources away from its mandate "to increase homeowner protection" in British Columbia.

3. The Committee found that the HPO's defined goals and objectives are only partially consistent with and supportive of the Office's broad mandate. Members felt that the HPO service plan is too narrowly focused on issues related to leaky condos.

4. Committee members were satisfied that the HPO's intended level of performance for the planning period is adequately specified.

5. Committee members were only partially satisfied that the intended results put forward in the HPO's service plan are clear, measurable and consistent with the organization's goals and objectives. In particular, they felt that the performance measures identified in the "Financial Assistance" section of the plan (p. 8) are neither specific enough nor sufficiently linked to the targets.

6. The Committee was only partially satisfied that the intended results in the HPO's service plan represented a reasonable level of achievement. Members thought that the performance targets in the service plan are too modest and felt that the HPO should strive for more aggressive targets in its next planning cycle. They also noted a lack of information about the Office's historical performance, and were concerned about the Office's future performance with the termination of the federal funding agreement for leaky condominium repair.

7, 9. The Committee was only partially satisfied that the HPO's service plan demonstrates how resources and strategies will influence results and that the planned contributions of key activities to intended results or goals/objectives are adequately demonstrated.

8. The Committee found that the financial and non-financial performance measures provided in the service plan give an integrated and balanced picture of performance. One weakness noted by committee members is that projected losses on default loans made under the Homeowner's Reconstruction Loan Program are not clearly spelled out.

10. The Committee was generally satisfied that there is a clear comparison between actual performance, as provided in the HPO's annual report, and intended performance, as set out in service plan.

11. The Committee was only partially satisfied that the relevant core principles enunciated by Government policies are evident in the planning and operations of the HPO. In particular, committee members expressed concerns about the adequacy of protection offered to consumers purchasing houses from owner-builders.

Issues for future review

Arising from its initial deliberations, the Committee identified the following issues for ongoing monitoring and future review.

- **Adequacy of performance targets**

  Members raised concerns about the performance targets proposed by the Homeowner Protection Office in its 2003 – 2006 service plan. Noting that the HPO has already exceeded the majority of the targets significantly in the first year of the three-year planning cycle, they suggested that the Office should consider more aggressive targets for future service plans that either equate with or improve upon existing standards.

  The Committee identified three performance measures warranting re-examination. They noted:

  - o that the future target for percentage of homes built under the *Homeowner Protection Act* with warranty insurance claims is excessive (<10%), given the current rate of 5 percent. (page 7 of the service plan).
  - o that the number of investigations resulting in successful voluntary compliance with the *Homeowner Protection Act* is underestimated. In the current fiscal year, the HPO was obtaining 89 percent voluntary compliance, whereas the benchmark was set at 72 percent. (page 7 of the service plan).
  - o that the benchmark for the number of homeowners defaulting on reconstruction loans is set too high at 4 percent, when present rates are at 0.85 percent. (page 7 of the service plan).

  In response, the acting CEO of the HPO indicated that several factors have contributed to the apparent underestimation of certain performance targets. He agreed with the observation that the performance targets were developed in 2002 before the actual results of 2002/03 were known, thus making the targets "best estimates" for a relatively new organization without significant historical performance data. He assured the Committee that more aggressive targets could be set in some areas, although he warned that poorer performance results two areas-the incidence of home warranty insurance claims and satisfaction of consumers with warranty insurance- would likely be seen in the upcoming fiscal year.

With respect to expected incidence of warranty claims, the witness reported that the Office anticipates claims to rise as the number of new homes built under the five-year and ten-year coverage warranty coverage increases. He noted that the majority of homes built with the mandatory "2-5-10 insurance coverage" (two years of coverage on material and labour; five year protection against building envelope failure, and ten years against structural failure), have only recently come onto the housing market. Hence, the HPO foresees a greater number of claims as the five and ten year warranty coverage approaches expiration. However, the Committee received assurances from the witness that the HPO will establish its performance targets against benchmarks from other jurisdictions to ensure that the quality of construction is BC will remain comparable to other jurisdictions.

In a related question, committee members asked the HPO witnesses to elaborate on the tools and standards upon that the HPO relies on for measuring its performance. They learned that the HPO receives regular quarterly reports from home warranty insurance companies on the number of claims received, that it conducts periodic homeowner satisfaction surveys, and that it tracks the HPO's participation rate in major symposiums and publications. For industry benchmarks, the Office relies on resources, such as the *Mortgage Default Rates* published by the Canadian Bankers Association; however, establishing benchmarks for insurance claims is more difficult as industry players do not generally share the information openly. As a result, the Office currently relies one of its employees' personal contact at the Ontario New Home Warranty program for information-sharing.

- **Allocation of Homeowner Protection Office resources**

  Some committee members expressed concerns that the resources expended upon the current compliance strategy might be better allocated towards proactive consumer awareness programs. The Members emphasized that providing consumers with more information on the warranty insurance program would effectively create market disincentives against those builders not covered by the program.

  In reply, the acting CEO stated that the HPO envisions a model in which the need for ensuring participation of builders in the new home warranty program is driven by demand from consumers and private lending institutions, as in the United Kingdom. However, the witness stated that British Columbia is in a 'transitory model,' but is many years away from that stage where all lending institutions are aware of the risks that are faced by poorly built homes that do not have any warranty coverage.

- **Geographical focus of the Homeowner Protection Office's activities**

  The Committee also queried the geographical focus of the HPO's activities. Members noted that the majority of the HPO's resources are devoted to leaky condominiums in the lower mainland and southern Vancouver Island regions, even though licensing fees are collected throughout the province. Members questioned whether the HPO's service plan effectively allocates resources and funds to other regions within British Columbia.

  In response, the witnesses maintained that the HPO's original mandate was to manage the issues relating to building envelope failures of condominium complexes in the lower mainland. They added that the HPO is now in the planning stages of surveying local chapters of the Canadian Home Builders' Association, in an effort to articulate issues,

needs, and concerns of licensed residential builders outside the lower mainland. In addition, the committee was informed that during 2002, the HPO was concentrating its efforts a lot more in rural British Columbia and in the interior of the province.

- **Owner-builder exemptions**
  Several Members expressed concerns about an apparent loophole in the *Homeowner Protection Act*. The Act allows individuals to apply for owner-builders' exemptions from licensing and warranty insurance requirements – once every eighteen months – when building a house for their personal use. Members were surprised to learn from the presentation that the HPO found that 25 percent of all new homes built by owner-builders are sold within two years and that 33 percent are sold within three years; thus, not covered under the warranty program. Committee members indicated that this unintended consequence of the legislation was at odds with the HPO's mission statement of "increasing consumer protection for homeowners and homebuyers," and "improving the quality of residential construction in British Columbia."

  The witnesses responded that they were well aware of this abuse and will continue to actively monitor this exemption and attempt to seek voluntary compliance with respect to participation in the new home warranty insurance program. Additionally, the HPO is seeking authority to develop a comprehensive and publicly accessible registry of new homes constructed in the province. This registry will provide information on whether the home was built by a licensed builder, the warranty provider, and when the warranty coverage commenced. The registry will also contain information on whether the home was built by an owner-builder and links to reference material containing information on consumers' rights when purchasing a home from an owner-builder. This registry will be searchable and will provide consumers with more information on their home purchase.

- **Adequacy of the warranty program on building envelope repairs**
  Relating to the quantity of warranty claims expected by the HPO, several committee members requested information on the quality of building envelope repairs undertaken by licensed contractors. Some committee members relayed constituent concerns that some restored buildings were continuing to leak, even after expensive reconstruction. The Members then expressed apprehension as to whether the HPO is prepared to handle second-generation building envelope failures.

  In reply, the acting CEO reported that the HPO has yet to have a second repair of any building to which it has made a no-interest loan for repairs. He added that the HPO is continually monitoring moisture content in buildings that have undergone qualified repairs and that the repairs were allowing moisture to escape in the test cases. The witness also assured the Committee that homeowners of leaky condominiums built after 1998 will receive compensation through insurance, rather than incurring out-of-pocket expenses.

Committee Recommendations

Recommendation No. 15:
The Committee recommends that the Homeowner Protection Office implement the Committee's observations and suggestions for improvements in the Office's future annual reports and service plans – in particular with respect to key reporting principles #2, 3, 5, 6, and 11 as outlined under the "Committee's Observations" section.

Recommendation No. 16:
The Committee recommends that the Homeowner Protection Office substantively address ways in which it plans to achieve the objective of increasing consumer protection for all homeowners and homebuyers.

Recommendation No. 17:
The Committee recommends that the Homeowner Protection Office reassess its benchmarks for performance measures, particularly with respect to the number of expected warranty claims, percentages of default loans, and the percentage of builders who voluntarily comply with HPO's recommendations.

Recommendation No. 18:
The Committee recommends that the Homeowner Protection Office take steps to enhance consumer awareness of the mandatory third-party new home warranty insurance program.

Recommendation No. 19:
The Committee recommends that the Homeowner Protection Office, given the disproportionate level of expenditures on compliance and enforcement programs within the lower mainland/southern Vancouver Island, re-evaluate the levies charged against builders operating outside of these two regions.

REVIEW OF ORGANIZED CRIME AGENCY OF BRITISH COLUMBIA

On October 8, 2003, the Crown Corporations Committee met with the senior officers of the Organized Crime Agency of British Columbia (OCABC) and reviewed the following documents:

- Organized Crime Agency of British Columbia Annual Report, 2002/2003
- Organized Crime Agency of British Columbia Service Plan—Fiscal 2003/04 – 2005/06
- Organized Crime Agency of British Columbia Society Audited Financial Statements, 2003. (Due to the sensitive nature of this document, Financial Statements were discussed in camera).

Committee Observations

In reviewing the Organized Crime Agency of British Columbia, the Committee considered the 11 key reporting principles outlined in its *Guide to Operations* (see Appendix A). During their internal deliberations, committee members made the following observations:

1. Overall, the Committee was satisfied that the Agency's service plan adequately explains the organization's mandate, core products and services, operating environment and major challenges.

2. The Committee was satisfied that the Agency's service plan focuses on aspects of performance that are critical to the organization achieving its goals, objectives and intended results. Members noted that the Agency's ability to fully realize revenues collected from proceeds-of-crime are largely dependent upon required changes to federal legislation.

3, 5. The Committee found that the Agency's goals and objectives are generally well defined and consistent with and supportive of the achievement of its mandate. By and large, the Committee was satisfied that the intended results identified in the service plan are sufficiently clear, measurable, concrete and consistent with the organization's goals or objectives, given the nature of work conducted by the Agency. However, some Members stated the Agency should develop quantifiable targets and performance measures for distribution to the public.

4. Overall, the Committee was satisfied that the intended level of performance for the planning period is specified. Members were satisfied that the Agency's resources were sufficiently allocated to obtain goals and objectives.

6. Committee members agreed that the Organized Crime Agency's in camera presentation sufficiently demonstrated an appropriate level of achievement based on historical performance and resources available. The Committee was satisfied that comparisons with similar organizations would be extremely difficult, given the level of inter-agency data sharing and cooperative police work conducted by the Agency.

7, 8. Overall, the Committee was satisfied that the Commission's service plan sufficiently demonstrates how resources and strategies will influence results. The Committee was satisfied

that financial and non-financial performance measures provided to give an integrated and balanced picture of intended performance.

9, 10. The Committee was satisfied in the Agency's linkage of key activities to intended results. Committee members also agreed that the disclosure of the Agency's financial information during the presentation provided a clear comparison between the service plan and annual report.

11. The Committee was pleased that the relevant core principles enunciated by Government policies are evident in the planning and operations of the Organized Crime Agency of British Columbia. Members were satisfied that the Agency is well focused on its specific mandate.

Issues for future review

The Committee met in-camera to discuss issues arising from the disclosure of the Organized Crime Agency of British Columbia's Audited Financial Statements, 2003. Arising from its initial review of non-financial items, the Committee identified the following issues for ongoing monitoring and future review.

- **Public awareness of the OCABC's mandate**
  After reviewing the OCABC's strategic goal to "continually identify, develop and maintain partnerships to enhance its ability to suppress and disrupt organized crime," Members noted that community outreach and education was not listed as a strategy to develop partnerships. Members asked if OCABC was involved in soliciting community involvement and informing the public on issues related to organized crime.

  In response, the Chief Officer stated that the Agency regularly makes public presentations about issues relating to organized crime. OCABC presents information at a variety of forums provided by police and corporate entities, service groups, chambers of commerce and policing-related conferences.

  The witness also stated that the Agency often receives leads from the public. Depending on the situation, the OCABC will either retain the information if it fits within the Agency's mandate, or pass the information off to an appropriate policing agency.

  In addition, the Chief Officer stated that the OCABC has used a public awareness variable in a previous strategic plan, but presently collect information relating to this variable.

- **Identification of organized crime in BC**
  Members inquired into whether OCABC was having success in identifying and shutting down organized crime operations operating in the province.

  With respect to the identification of potential threats, the Chief Officer replied that coordinated criminal threat assessments conducted by both the Criminal Intelligence Service Canada and the BC Operations Council have "pretty well identified" major ongoing dangers. The witness also stated that coordination between policing agencies is evolving, but is getting better at understanding the dynamics of multi-lingual and multi-ethnic groups.

The witness also stated that OCABC is doing a "pretty exceptional job" in apprehending people who "outgun us, outman us, and out resource us." The Chief Officer emphasized the Agency's general strategy— derived from experiences in other jurisdictions— is to focus on key people rather than the entire criminal organizations. The witness stated that this strategy has been successful in putting key suspects in jail for "many, many years."

- **Quantitative performance measures**

  Although understanding the need to protect sensitive financial and operational details, committee members asked if there some performance measures that could be quantified as to provide a better evaluation framework. In particular, the Members proposed that several targets— such as the number of initiatives that result in successful prosecutions or a dollar value on asset forfeitures— could be made public without compromising the Agency's operations.

  The Chief Officer responded that that OCABC "tracks every penny we've seized." The witness stated that statistics are maintained on the value of contraband seized and the value of referrals to taxation departments, and that such information is regularly provided to the Solicitor General. However, the witness also stated that it would be a simple process to make available these statistics as to provide the public with an accurate understanding of the Agency's mandate.

- **Comparisons with other jurisdictions**

  Noting that performance comparisons to other jurisdictions were not provided, Members asked whether it was possible to provide such information in future service plans and annual reports. In particular, Members asked if outcomes of cases in which the OCABC was the lead agency could be assessed against comparable agencies in other jurisdictions.

  In response, the Chief Officer indicated that Statistics Canada captures policing statistics above and beyond what is collected by the OCABC. Additionally, given the interconnectivity of policing services in the country, it would be difficult to disaggregate statistics when involved in joint-force operations. The witness stated that given the Agency's philosophy of targeting core members of organized crime groups, the strict use of statistics for comparisons would generally undervalue the work conducted by the OCABC.

- **Other Issues**

  Committee members also queried into issues related procedures associated with asset forfeiture, provisions for mitigating corruption with partners from other agencies, the Agency's resources for combating Asian organized crime, and opportunities available to the public to report organized crime.

Committee Recommendations

Recommendation No. 19:
The Committee recommends that the Organized Crime Agency of British Columbia implement the Committee's observations and suggestions for improvements in the Agency's future annual reports and service plans – in particular with respect to key reporting principles # 3 and 5 as outlined under the "Committee's Observations" section.

Recommendation No. 20:
The Committee recommends that the Organized Crime Agency of British Columbia continue to work closely with the Solicitor General as to ensure there is regular dialogue on mutually achievable goals.

Recommendation No. 21:
The Committee recommends that the Organized Crime Agency of British Columbia examine the feasibility of providing quantifiable performance measures in its public annual reports and service plans.

Recommendation No. 22:
The Committee recommends that the Solicitor General, Minister of Revenue and the Organized Crime Agency of British Columbia work with the federal government to ensure that a more equitable distribution of financial assets collect as proceeds of crime are returned to the Agency.

SUMMARY OF RECOMMENDATIONS

The Committee recommends:

1. that the Insurance Corporation of British Columbia implement the Committee's observations and suggestions for improvements in the Corporation's future annual reports and service plans – in particular with respect to key reporting principles #1, 2, 6, 7 and 11 as outlined under the "Committee's Observations" section.
2. that the Insurance Corporation of British Columbia immediately conduct an executive search to fill the position of Chief Executive Officer.
3. that the Insurance Corporation of British Columbia:
   a) detail the value of all tax exemptions afforded to ICBC as a result of Crown Corporation status,
   b) provide detailed information pertaining to the costs of services delivered by ICBC that private insurance companies do not bear,
   c) specify, given this benefit/cost scenario, how ICBC is promoting greater competition within the insurance marketplace.
4. that the Insurance Corporation of British Columbia make available publicly the actuarial statistics of the Corporation and summary data collected by the Corporation.
5. that the Insurance Corporation of British Columbia continue to improve its audit procedures regarding complaints of repair shop programs, and ensure that such audit procedures are made available to repair shop operators. Furthermore, the Committee requests ICBC to report back to the Committee within three months of the release of this report the status of improvements made to audit procedures.
6. that the BC Utilities Commission implement the Committee's observations and suggestions for improvements in the Commission's future annual reports and service plans – in particular with respect to key reporting principles #5 and 8 as outlined under the "Committee's Observations" section.
7. that the BC Utilities Commission review its performance measures in order to make them objective and measurable.
8. that BC Hydro implement the Committee's observations and suggestions for improvements in the Authority's future annual reports and service plans – in particular with respect to key reporting principles #1, 2, 6,7 and 9 as outlined under the "Committee's Observations" section.
9. that BC Hydro re-evaluate contingency plan for fluctuations in the price of natural gas and/or lower-than-average water levels as to better reflect the potential of operating environment challenges.
10. that BC Hydro provide a clear strategy for upgrading and improving existing infrastructure as to ensure that BC Hydro achieves its goals, objectives and intended results through the allocation of current resources.

11. that BC Hydro reassess its intended results as to better reflect the Authority's historical performance and comparative performance to similar organizations.

12. that BC Hydro clarify its selection criteria used to select independent power production projects.

13. that as per its mandate, BC Hydro be required to increase opportunities for independent power producers in the province.

14. that the Homeowner Protection Office implement the Committee's observations and suggestions for improvements in the Office's future annual reports and service plans – in particular with respect to key reporting principles #2, 3, 5, 6, and 11 as outlined under the "Committee's Observations" section.

15. that the Homeowner Protection Office substantively address ways in which it plans to achieve the objective of increasing consumer protection for homeowners and homebuyers.

16. that the Homeowner Protection Office reassess its benchmarks for performance measures, particularly with respect to the number of expected warranty claims, percentages of default loans, and the percentage of builders who voluntarily comply with HPO's recommendations.

17. that the Homeowner Protection Office take steps to enhance consumer awareness of the mandatory third-party new home warranty insurance program.

18. that the Homeowner Protection Office, given the disproportionate level of expenditures on compliance and enforcement programs within the lower mainland/southern Vancouver Island, re-evaluate the levies charged against builders operating outside of these two regions.

19. that the Organized Crime Agency of British Columbia implement the Committee's observations and suggestions for improvements in the Agency's future annual reports and service plans – in particular with respect to key reporting principles # 3 and 5 as outlined under the "Committee's Observations" section.

20. that the Organized Crime Agency of British Columbia continue to work closely with the Solicitor General as to ensure there is regular dialogue on mutually achievable goals.

21. that the Organized Crime Agency of British Columbia examine the feasibility of providing quantifiable performance measures in its public annual reports and service plans.

22. that the Solicitor General, Minister of Revenue and the Organized Crime Agency of British Columbia work with the federal government to ensure that a more equitable distribution of financial assets collect as proceeds of crime are returned to the Agency.

APPENDICES

Appendix A: "Key Reporting Principles" considered by the Committee

Question	Yes	Partly	Not at All	Comments
1. Does the plan adequately explain the organization's mandate, core products and services, operating environment and major challenges?				
2. Does the plan focus on aspects of performance that are critical to the organization achieving its goals, objectives and intended results?				
3. Are the goals and objectives well-defined and consistent with and supportive of the achievement of the mandate?				
4. Is the intended level of performance for the planning period specified?				
5. Are the intended results clear, measurable, concrete and consistent with goals or objectives?				
6. Has the plan demonstrated satisfactorily that intended results represent a reasonable/appropriate level of achievement given: • historical performance, • resources available to the organization, and • performance of similar organizations?				
7. Does the plan demonstrate how resources and strategies will influence results?				
8. Are financial and non-financial performance measures provided to give an integrated and balanced picture of intended performance?				
9. Is the planned contribution of key activities to intended results or goals/objectives adequately demonstrated?				
10. Are actual (Annual Report) and intended (Service Plan) performances set out in clear comparison?				
11. Are the relevant core principles enunciated by Government policies evident in the planning and operations?				

Other General Comments:

Appendix B: Schedule of Crown Corporations Reviewed

Crown Corporation reviewed	Date of initial review
BC Buildings Corporation	July 8, 2002
BC Lottery Corporation	September 4, 2002
Tourism BC	October 2, 2002
BC Transit	October 2, 2002
First Report, 3rd Session, 37th Parliament – tabled November, 2002	
BC Securities Commission	October 30, 2002
First Report, 4th Session, 37th Parliament – tabled May 2003	
Insurance Corporation of BC	May 7, 2003
BC Utilities Commission	May 28, 2003
BC Hydro	June 11, 2003
Homeowner Protection Office	July 8, 2003
Organized Crime Agency of BC	October 8, 2003